
2Q23

Salt Lake County Office Market Overview



NEWMARK

Market Observations

Economy

- Salt Lake City’s labor market remains strong, with a 2.5% unemployment rate in May 2023. This is lower than the U.S. average of 3.7%.
- Leisure/hospitality led local employment sectors in job gains over past 12 months. Shifts in consumer spending from goods to services is one factor.
- Information and professional and business services led the way for office-occupying employment growth. The big question for the metro is to what degree global layoffs at large tech firms, such as Google, Meta and Amazon, impact local jobs.

Major Transactions

- Educational users, such as the University of Utah, Eagle Gate College and the Salt Lake School for the Performing Arts, all committed to substantial leases in the first half of 2023.
- After completing a second built-to-suit project in 2022, Myriad Genetics left Research Park completely, a big hit to the growing life science sector within the metro. As a whole, today’s life science requirements are fewer compared with the same period last year. Active requirements are also for smaller footprints.
- Over 20% of the leases in the second quarter of 2023 were renewals, with companies such as Credit Corp Services, Raytheon, Intermountain Healthcare, MountainStar Healthcare and multiple life insurance companies all recommitting to space.

Leasing Market Fundamentals

- Office occupancy in the first half of 2023 contracted by 19,364 square feet. Net absorption losses have slowed down in recent quarters but are expected to continue throughout 2023 and into 2024 with many companies reducing footprints at renewals by an average of 42.6% or searching for reduced square footage for new space.
- Under-construction space has trended down sharply since 2019, when a record high 3.7 million square feet were underway. Hybrid work models and rising sublet availability are factors.
- Vacancy and asking rents both increased year over year. Vacancy grew to 16.0%, with 332,182 square feet of new product coming online in the first half of the year.

Outlook

- Uncertainty reigns in the macroeconomic outlook. Occupiers and investors alike will approach deals with greater caution as a result, which will impact leasing and sales activity.
- Market vacancy will increase further as lease expirations occur and tenants continue the trend of renewing and/or leasing at smaller footprints.
- Ever-softening leasing conditions in the quarters ahead will pressure landlords to lower their asking rents. This is especially true for sub-trophy buildings.

1. Economy
2. Leasing Market Fundamentals

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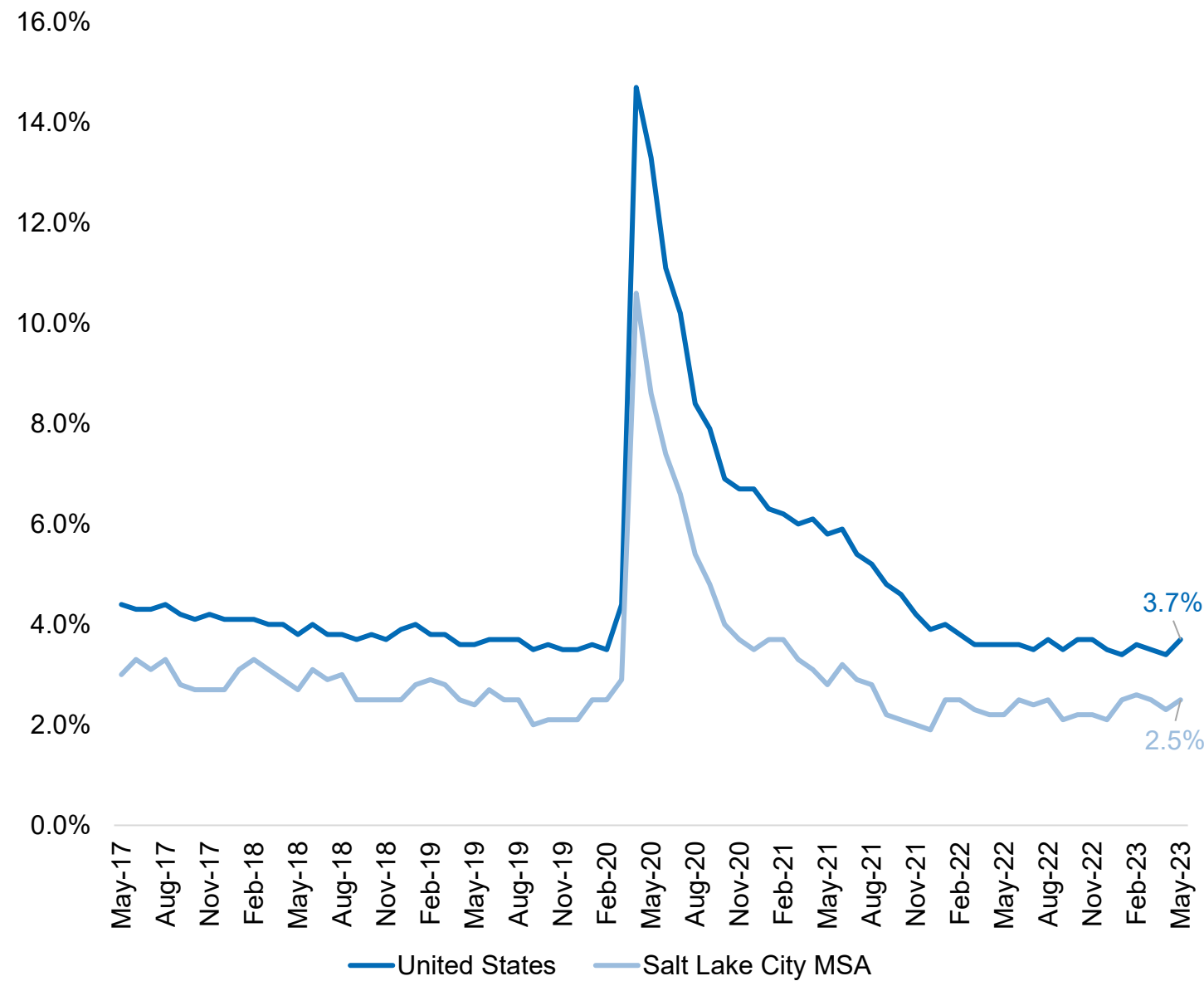
Economy



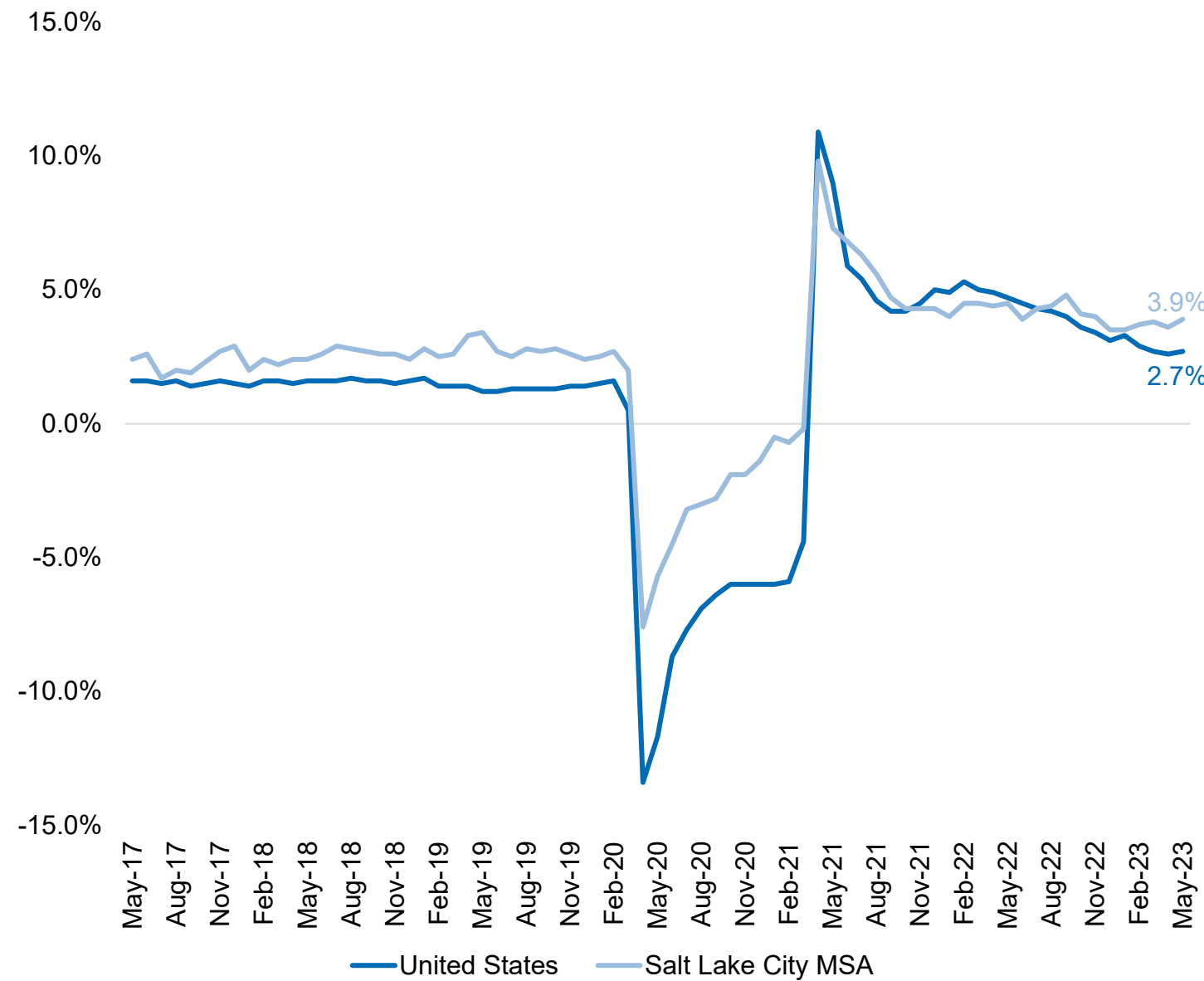
Salt Lake Metro Labor Market Outperforms the Nation

Local unemployment has historically remained significantly lower than the national average, a trend that holds true pre- and post-pandemic. At the end of May 2023, Salt Lake unemployment was 120 basis points lower than the national rate. Local job growth across all sectors also exceeds the national average, with 3.9% in annual gains relative to 2.7% growth for the U.S.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change



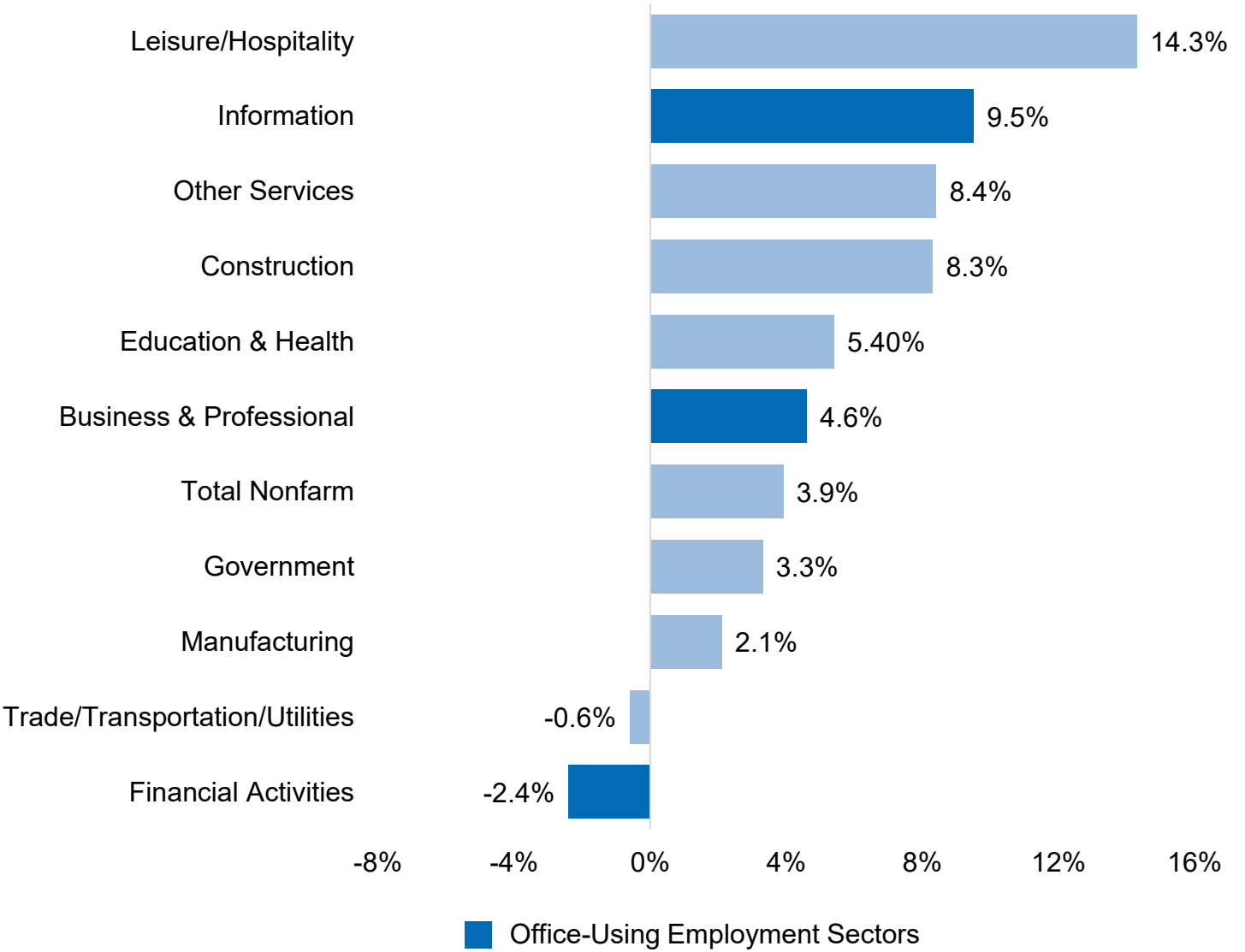
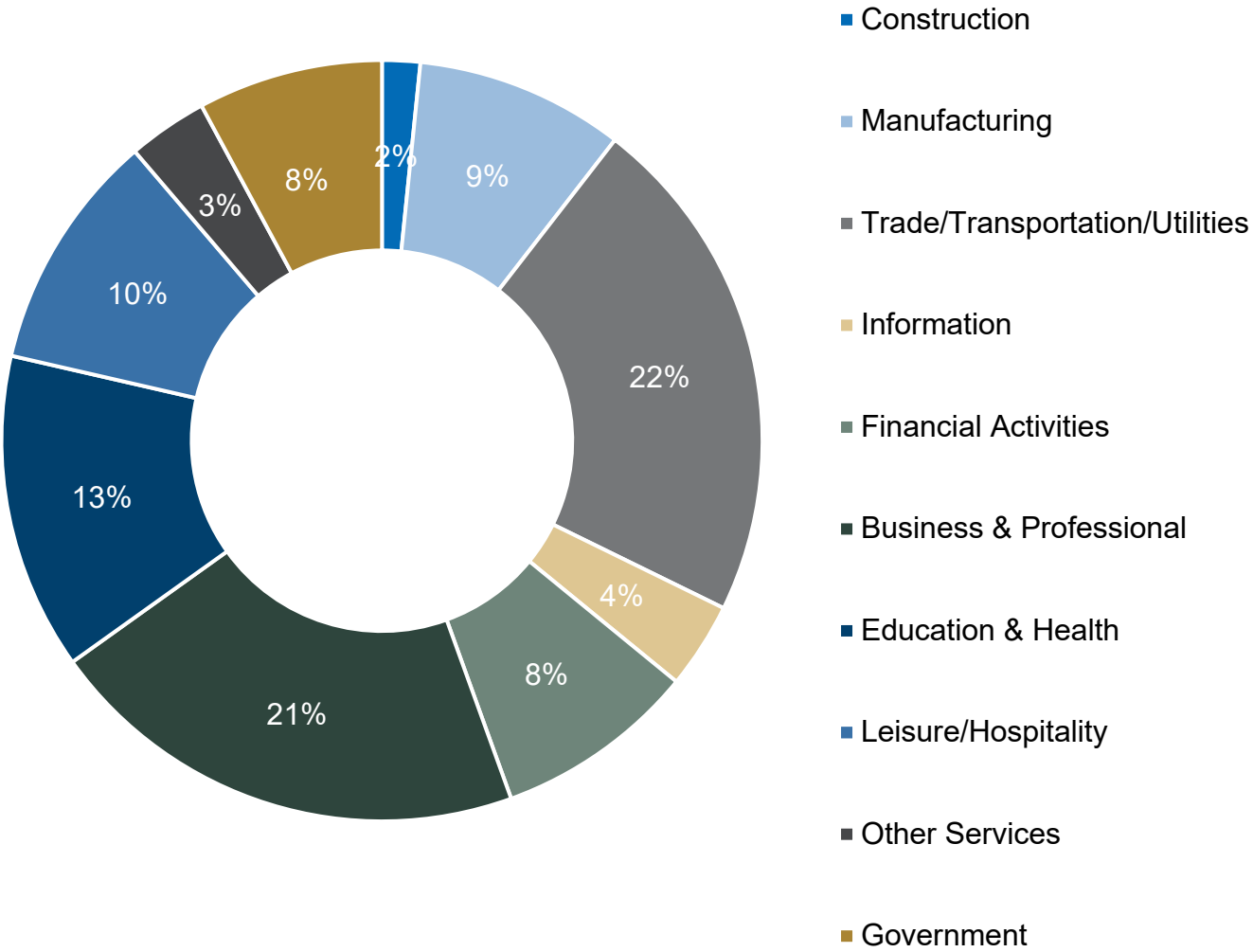
Source: U.S. Bureau of Labor Statistics, Salt Lake City MSA

Local Job Growth Partly Driven by Services Still Making Up for Pandemic Losses

Leisure/hospitality led all other industrial industries in annual job growth as the sector continues to backfill early pandemic losses and capitalize on the shift in consumer spending on goods to services. Office-using employment sectors saw annual gains as well, except for financial activities; this segment is feeling the effects of interest rate hikes.

Employment by Industry, May 2023

Employment Growth by Industry, 12-Month % Change, May 2023

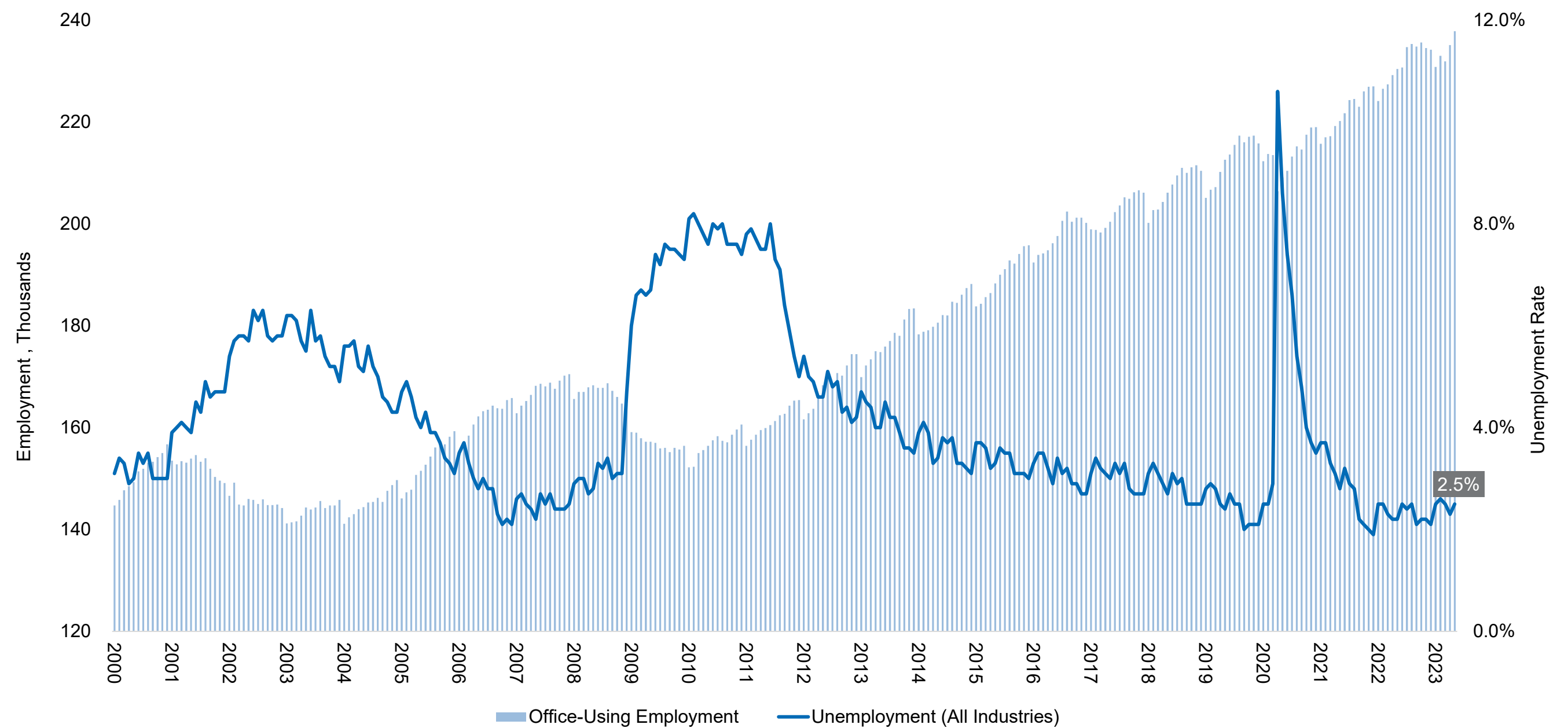


Source: U.S. Bureau of Labor Statistics, Salt Lake City MSA

Overall Office-Using Employment Stronger Than Ever

Bucking the national trend, Salt Lake Metro office-using jobs only saw a small dip at the start of the pandemic and have grown to the highest levels the metro has experienced in the following quarters. While there is seasonally a small dip in employment rates at the beginning of each year, consistent job contraction for the past four quarters in the financial activities sector could slow or hinder overall office employment job growth as 2023 goes on.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Salt Lake City MSA
Note: May 2023 data is preliminary.
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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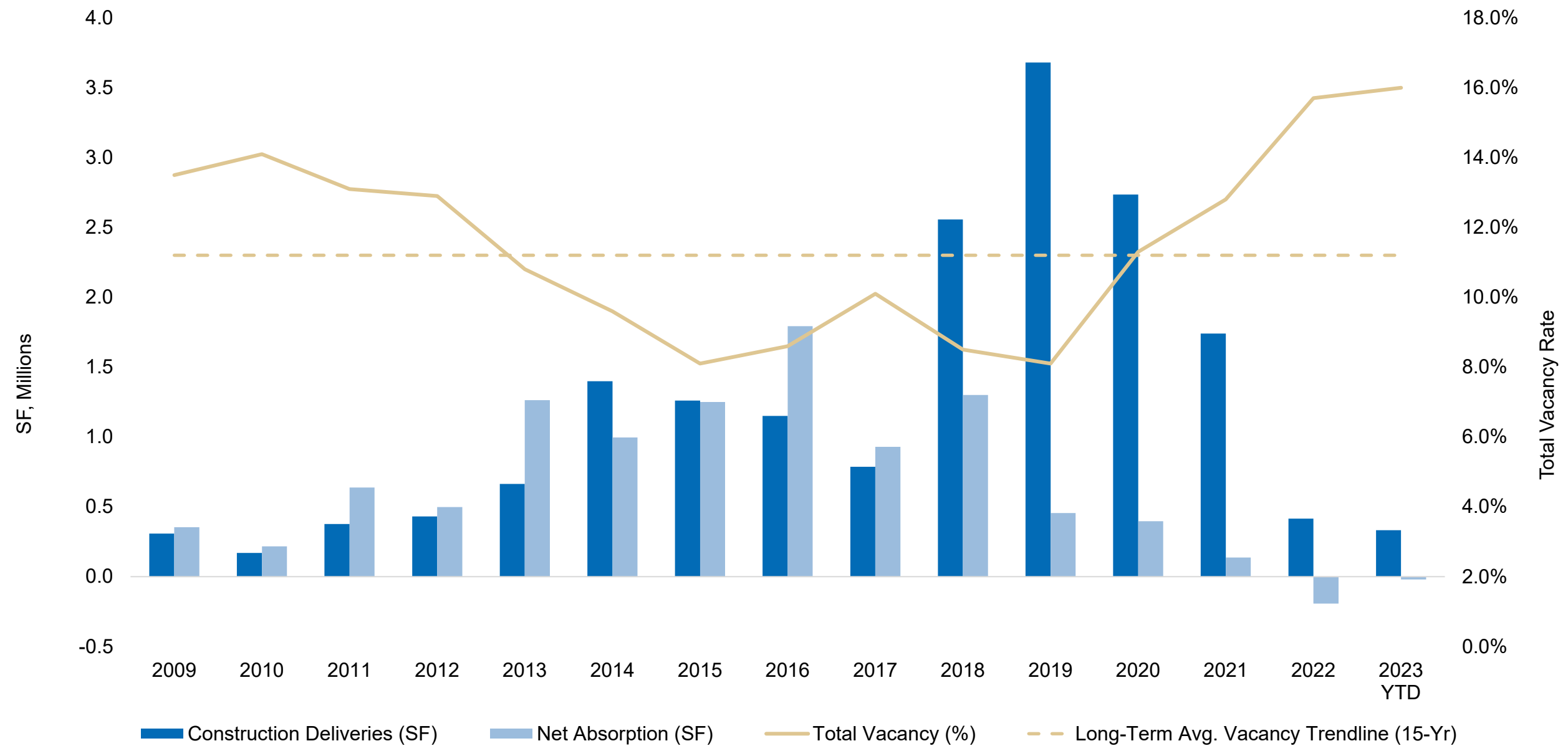
Leasing Market Fundamentals



Vacancy Rises as Construction Deliveries Outpace Net Absorption

The total vacancy rate increased to 16.0% in the first half of 2023 from 15.7% at the end of 2022 and has sat above the metro’s 15-year vacancy average of 11.2% since 2020. Both direct and sublet vacancy are expected to rise over the next few quarters as the economy slows and tenants, most of which are embracing hybrid work models, generally commit to smaller footprints. This will compel landlords to offer concessions and tenant improvements where possible to keep building occupancy up.

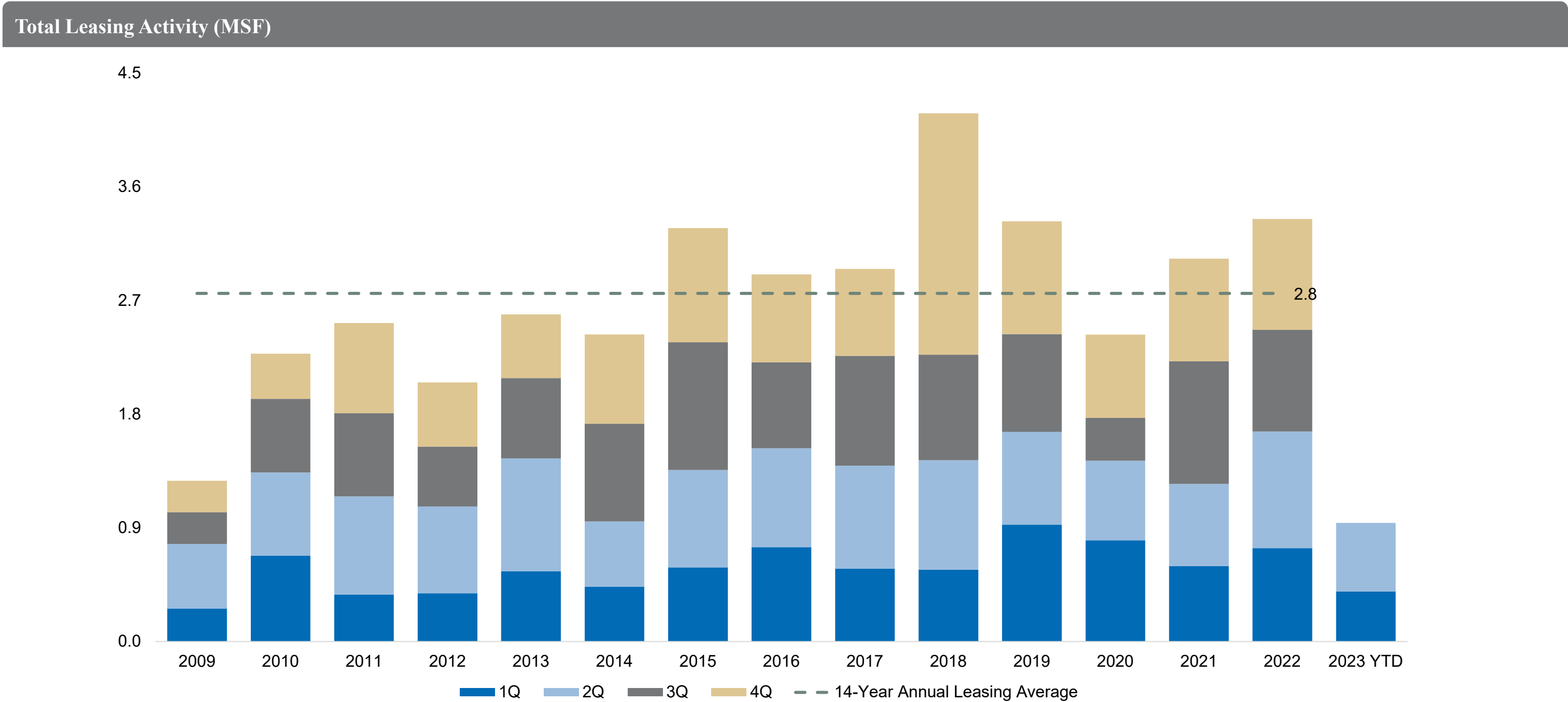
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Leasing Activity Pace Has Slowed

Leasing activity in the first half of 2023 is the lowest the market has experienced since 2009. Ongoing space reductions, a cloudy economic outlook and the higher cost of capital, which has prompted many companies to pause, assess current conditions and enact cost-cutting measures where applicable, are factors.

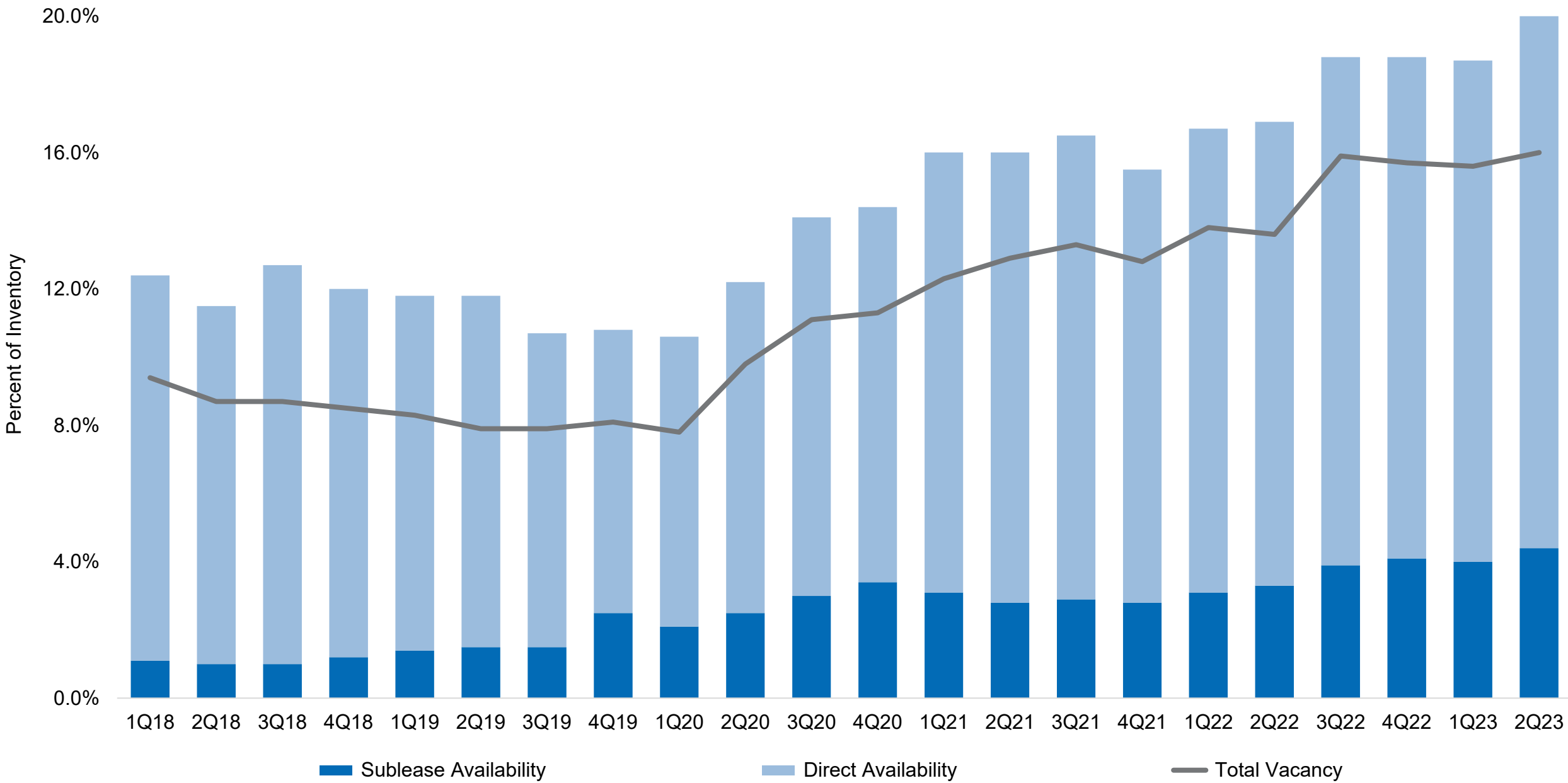


Source: Newmark Research

Availability Continues to Increase, With Vacancy Following Shortly After

Tenants are generally using less space, which has led to upticks in sublease and direct availability since the onset of the pandemic. Total vacancy will further increase amid sluggish leasing activity, ongoing tenant downsizes and available space progressively transitioning to vacant as leases expire.

Available Space and Total Vacancy as Percent of Overall Market

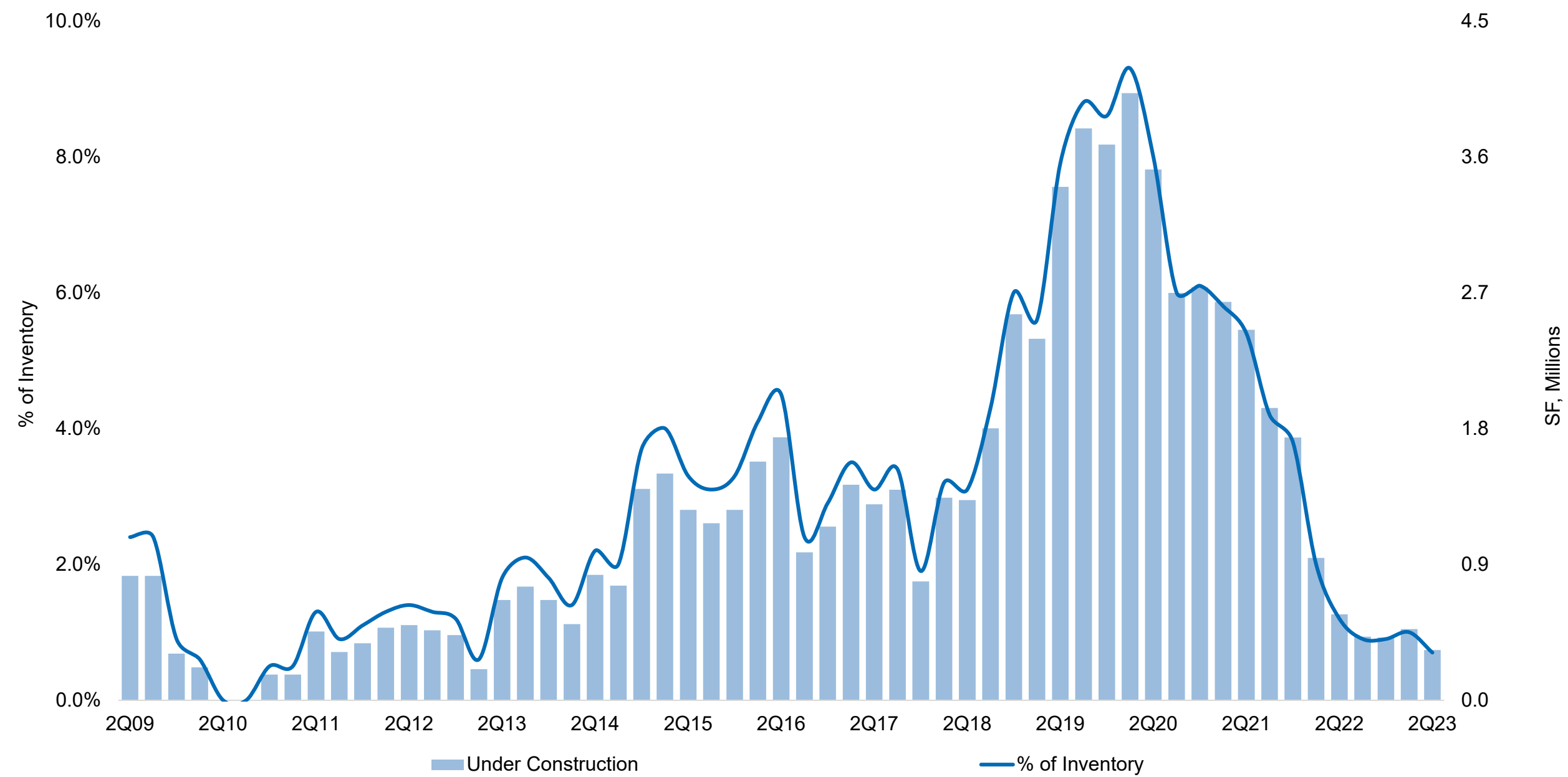


Source: Newmark Research

Deliveries Continue While New Construction Slows

After hitting the biggest construction cycle right before the onset of the pandemic, new construction starts have slowed to levels more in tune with the end of the Great Financial Crisis. The planned pipeline largely consists of smaller scale built-to-suit projects; speculative development was the dominant of the two prior to COVID-19.

Office Under Construction and % of Inventory

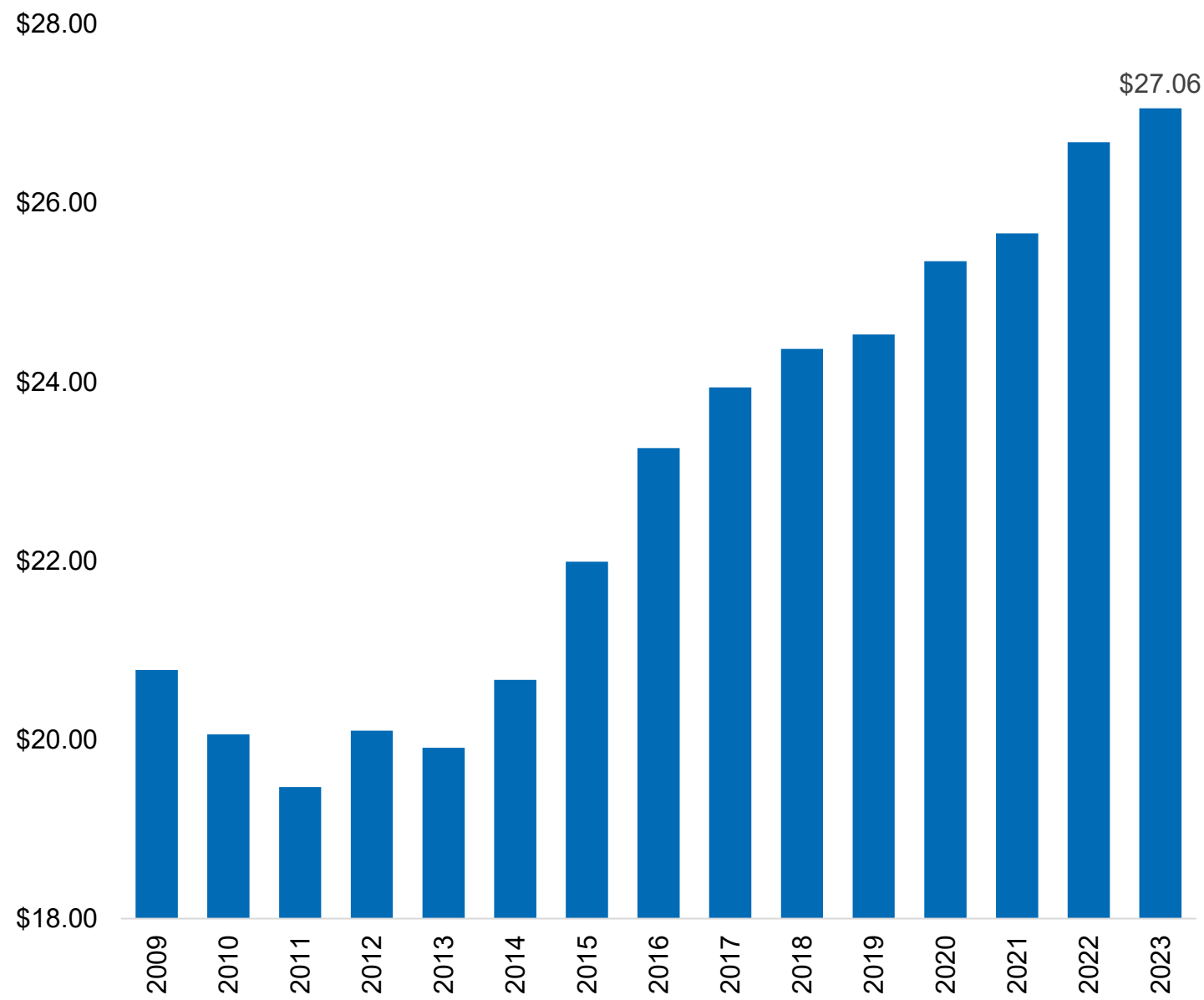


Source: Newmark Research

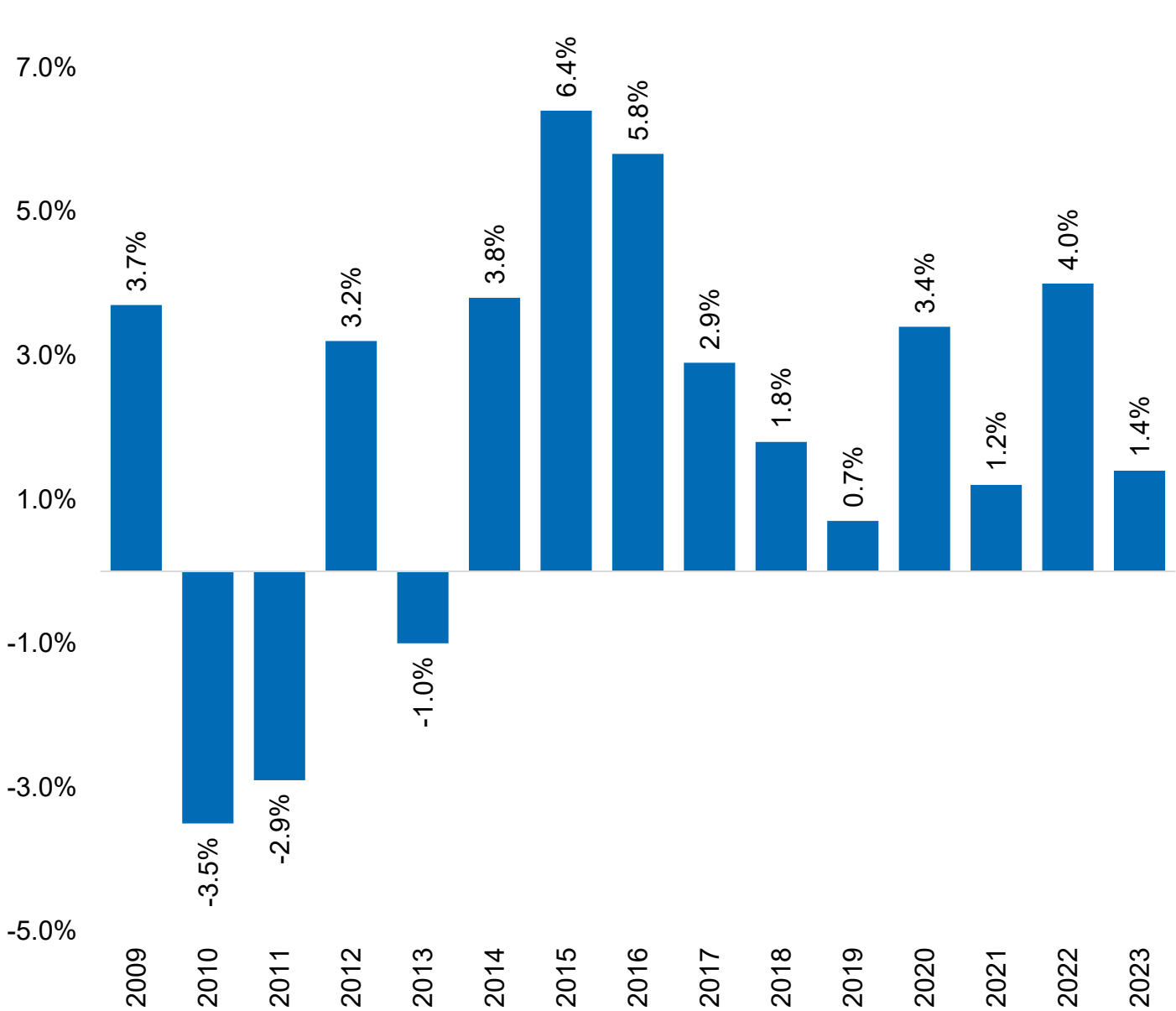
Asking Rents Continue to Climb for Now

Despite increasing vacancy, overall asking rates increased this quarter and hit a new record of \$27.06/SF, with increases also occurring across all class types. Landlords are holding rates, preferring to offer more concessions and tenant improvement allowances to attract and retain tenants in recent quarters than what was offered pre-pandemic.

Office Average Asking Rent, \$/SF/Year, FS



Year-over-Year Asking Rent Growth Rate

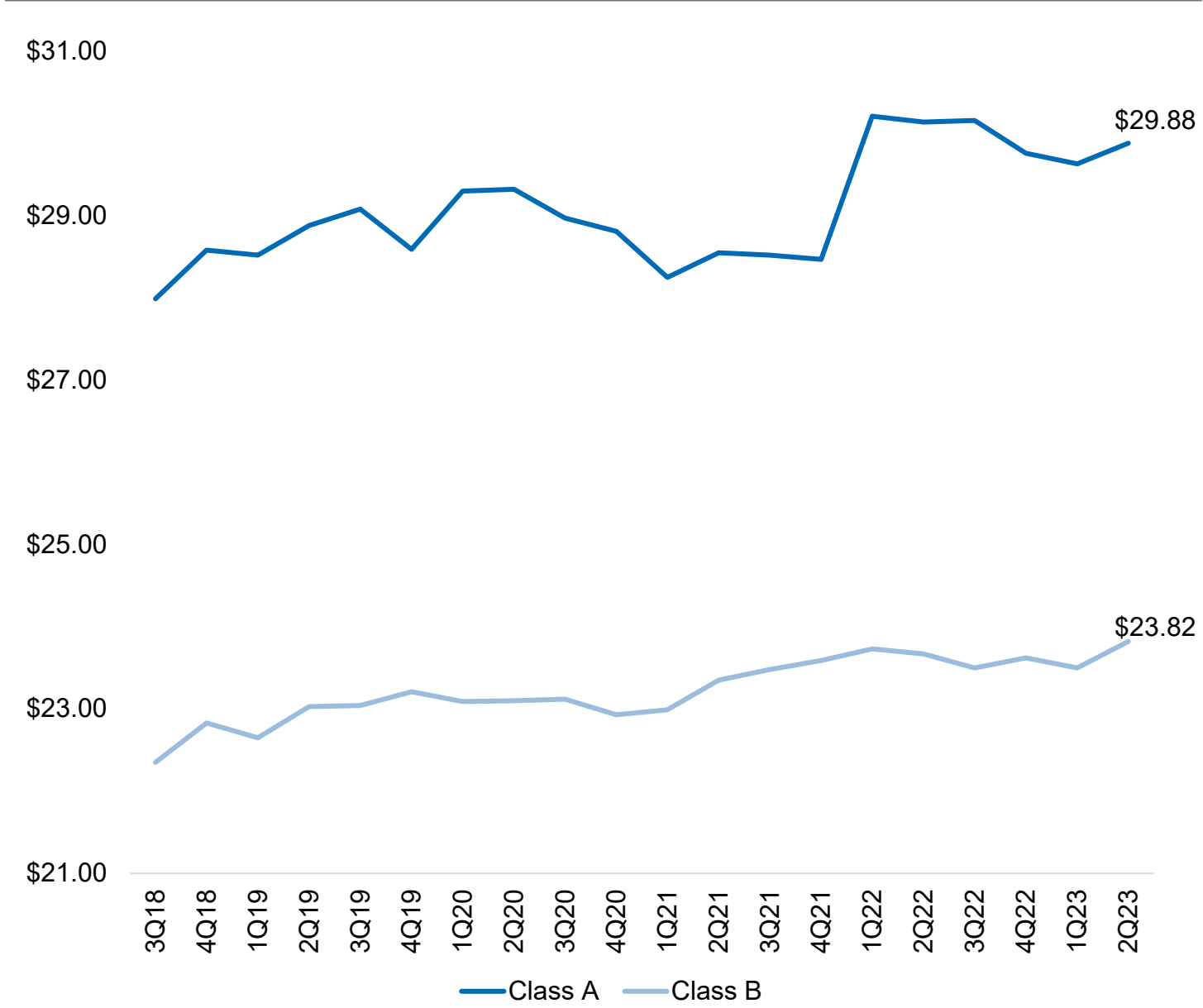


Source: Newmark Research

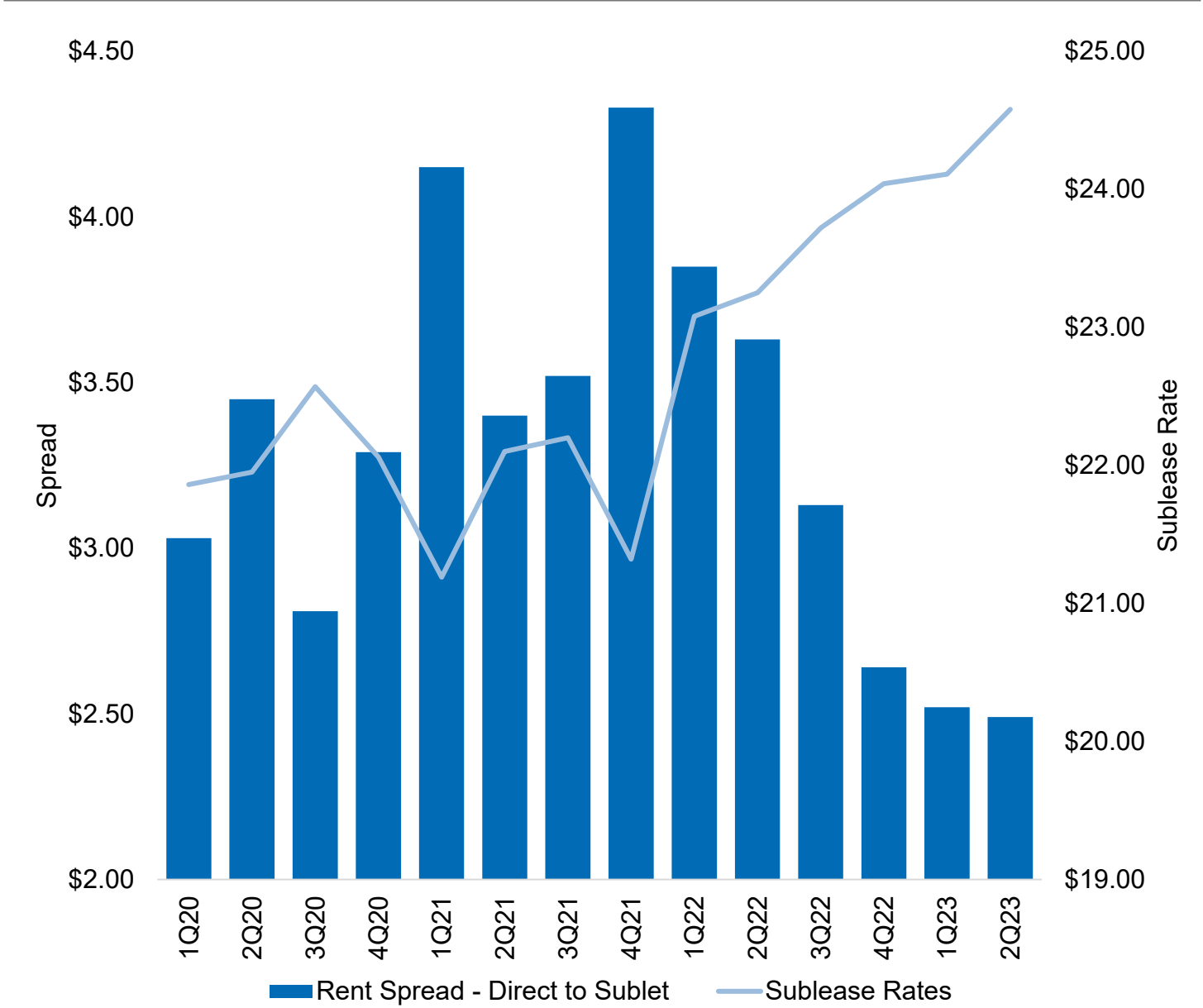
Asking Rents March On

In past cycles, direct asking rents trended down to account for depressed demand. This has not been the general case since the onset of the pandemic. Sublease asking rents meanwhile are increasing on account of Class A plug-and-play space presently on the market. Since sublease space is at a discount relative to direct space, some sublessors are increasing asking rents, which in turn is causing the rent delta between direct and sublet space to narrow.

Class A and Class B Asking Rents



Sublease Asking Rates



Source: Newmark Research

Leasing Activity Slows

Overall leasing slowed once more in the second quarter of 2023, with suburban submarkets seeing the largest amount of movement. Most deals that completed in the quarter were 10,000 square feet or less, making up 88.1% of all transactions within the metro.

Notable 2Q23 Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
The Salt Lake School for the Performing Arts	Oquirrh Place	Periphery	Direct Lease	42,186
After being on the market for less than a month, The Salt Lake School of Performing Arts leased the entire building and relocated to downtown Salt Lake City from the Cottonwood submarket.				
Credit Corp Services	Wasatch Corporate Center 16	Draper Tech Corridor	Lease Renewal	26,839
Credit Corp Services committed to keeping the same footprint on the entire second floor of the building for another term.				
Raytheon Company	9020 S. Sandy Pkwy.	Southtowne	Lease Renewal	26,595
With six months remaining on its current lease, Raytheon signed an early renewal agreement to remain in place.				
ProofPoint	Minuteman 6	Draper Tech Corridor	Direct Lease	26,021
Previously in Minuteman 1, ProofPoint signed to relocate within the Minuteman Office Park to the most recently delivered building.				
Eagle Gate College	5588 S. Green St.	Central Valley	Lease Renewal	22,589
Already a long-term tenant of the building, Eagle Gate College stayed in place within the Central Valley submarket.				

Source: Newmark Research

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